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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 000251

SIPDIS

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DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
EUR/CARC, SCA (GALLAGHER, SUMAR)
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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)

SUBJECT: SERBIAN EMBASSY SAYS NO SURPRISES IN GAZPROM DEAL

REF: A. MOSCOW 222

[B](#). MOSCOW 116

[C](#). 07 BELGRADE 1433

Classified By: Econ MC Eric Schultz for Reasons 1.4 (b/d)

SUMMARY

[1](#). (C) Serbian Embassy Counselor Boris Sekulic told us January 29th that the recently signed energy deal between the GOS and the GOR would route the South Stream pipeline through Serbia, result in Gazprom's construction of a gas storage facility in Serbia, and sell Gazprom a 51 percent stake in NIS, the Serbian government's oil and gas monopoly. Sekulic said Gazprom's promise that South Stream would transit Serbia was the key to the deal. It would help make Serbia economically relevant to Europe and bring in needed transit fees. One of our key Gazprom contacts claimed the deal was purely commercial with no politics involved but could not explain why the company had already decided to route the pipeline through Serbia when the feasibility studies were not yet complete. End Summary.

SERBIA HAPPY WITH AGREEMENT

[2](#). (C) Serbian Embassy Counselor Boris Sekulic told us January 29th that the energy cooperation agreement signed January 25th during the visit of Serbian President Tadic and Prime Minister Kostunica was largely along the lines of what had been widely reported in the press and as had been expected (refs B and C). The single document, an inter-governmental agreement with an attached "protocol" signed with Gazprom, outlines general terms for Gazprom's purchase of 51% of Serbia's government-owned oil and gas monopoly NIS, the routing of the South Stream gas pipeline through Serbia, and the construction of a gas storage facility in Serbia.

[3](#). (C) According to Sekulic, Gazprom will own 51% of the South Stream pipeline on Serbian territory, with the GOS owning the remaining 49%. In addition to the investments in South Stream and gas storage, Sekulic said Gazprom agreed to pay 400 million euros for the stake in NIS and to invest 500 million euros in the company over the next few years.

Sekulic indicated that the agreement between the GOS and the GOR includes a provision to protect NIS from competition until Serbia modifies its laws to comply with EU policies on integration.

¶4. (C) Sekulic reiterated his previous (ref B) assertion that for Serbia, the key point of the agreement was the assurance that South Stream would transit Serbia. He said Russia's agreement on this point was the reason President Tadic agreed to sign the deal. Sekulic said his government is concerned that Serbia not be isolated and said South Stream would ensure the country's economic relevance to the region and to Europe as a whole. Sekulic said the deal is also profitable for the GOS, which estimates that it will earn between 100 and 200 million euros in transit revenues from South Stream. In that regard, Sekulic added that the GOS would welcome routing of the proposed Nabucco gas pipeline through Serbia as well.

¶5. (C) Sekulic said the document needs to be ratified by parliaments in both countries. According to Sekulic, while the main points remained basically unchanged throughout the negotiations, the Russian MFA was editing and changing the document even during the final minutes prior to the arrival of the Serbian delegation. The negotiations, he said, lead him to believe that Gazprom will be a very "difficult" partner.

¶6. (C) Although energy dominated the presidential visit, Sekulic said other economic topics were also discussed. Sekulic said the GOS continues to push for ratification by the Russian Parliament of a Milosevic-era trade agreement that would provide duty-free entry into Russia for a variety of Serbian goods. He added, however, that Russia simply

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promised, as it has for years, that "it will be ratified soon."

GAZPROM: A COMMERCIAL DEAL

¶7. (C) Gazprom international affairs director Ivan Zolotov told us January 29th that for Gazprom, this was a "purely commercial" deal. He claimed that politics did not influence Gazprom's decision to buy NIS and that for Gazprom, "it's all about money." He said the GOR made no political promises to Serbia as part of the deal.

¶8. (C) That said, Zolotov could not explain why the agreement includes a route for South Stream through Serbia when the company set up by Gazprom and Italy's ENI (the 50-50 owners of the South Stream project) has yet to complete the feasibility studies meant to identify the most profitable route. "I'll have to get back to you on that." ENI's chief representative in Russia, Ernesto Ferlenghi, told us January 28th (ref A) that the route for South Stream had not yet been determined, but then back-tracked and said it would indeed go through Serbia.

COMMENT

¶8. (C) The Serbia deal, as with Gazprom's other recent western forays, represents both a risk and an opportunity. The risk is that Gazprom will export its non-transparent business practices to a credulous partner such as NIS. The opportunity is the further integration of the company into European regulatory processes as Serbia works toward EU standards. End comment.

BURNS